

Media Release
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Current annuity rates offer a rare rescue package for living annuity investors in trouble

South African life insurers are currently offering annuity rates at highs rarely seen over the past 20 years. Actuary Deane Moore, a member of the Actuarial Society of South Africa (ASSA) and annuity expert, says the main driver behind the sudden leap in annuity rates is the country's 10-year bond yield, which is at its highest since November 2002.

Moore says that while South Africa's rising interest rates have inflicted great financial pain on consumers by increasing the cost of living, long-term bond yields have also risen, which means that life companies can afford to offer higher annuity rates.

According to Moore, this is good news for retirees looking to buy a guaranteed income for life with their retirement savings. He explains that anyone buying a guaranteed life annuity now will lock in the current high rates for life.

He says over the past five years, there has been an increase in annuity rates of 33% for males and 43% for females for guaranteed life annuities with a 5% annual escalation in income and a 10-year guaranteed period.

Date	Annuity rate - female	Annuity rate - male
1 January 2018	6%	6.9%
1 January 2023	7.5%	8.1%
31 May 2023	8.6%	9.2%

This means a 60-year-old single woman with retirement savings of R1 million could buy a guaranteed income for life, increasing by 5% every year, of R86 000 a year, compared to R60 000 a year in January 2018. Women generally qualify for lower annuity rates than men because their life expectancy is higher.

Lifebuoy for living annuity investors

Moore explains that the current annuity rates are available for new guaranteed life annuities only. However, this presents a golden opportunity for living annuity investors who are drawing an income at an unsustainable rate.

Moore estimates that at least two-thirds of all living annuity investors in South Africa are living beyond their means and drawing incomes that are whittling away their capital base. "We are most concerned about people with living annuities who are in their early 70s and drawing income at a rate of 8% or more instead of the recommended living annuity drawdown rate for this age group of between 5% and 6%."

Moore says living annuity investors who have no choice but to draw incomes above 5% to make ends meet, thereby eroding their capital, have a window of opportunity now to

convert their living annuities to guaranteed life annuities. He adds that a living annuity investor currently drawing an income of, say, 8% could potentially lock in the same level of income for life by switching to a guaranteed life annuity, because of the current high annuity rates.

According to Moore, this would remove the burden of having to worry about what happens when the capital is no longer there to produce an income.

Alternatively, says Moore, some living annuities allow pensioners to buy a guaranteed life annuity as one of their assets, creating a hybrid annuity. "By doing this, pensioners can make sure that their essential living costs are provided for, while the remaining living annuity portion can be given a chance to recover and grow over time."

Moore says living annuities became popular in the early 2000s, attracting the weight of retirement capital. "The average life expectancy for men retiring at 65 is another 20 years and for women another 25 years. This means that pensioners who bought living annuities in the early 2000s and who are still alive are effectively the first group of annuitants living beyond the average life expectancy and having to survive on what is left in their living annuities."

Compounding the woes of living annuity investors were lower than expected investment returns, adds Moore. "The past decade has plunged living annuities into a crisis, and we now find ourselves on the cliff edge of that," says Moore.

He concludes that the healthy annuity rates currently on offer provide a solution for living annuity investors who find themselves on the edge of that cliff. He encourages anyone going into retirement and living annuity investors relying on unsustainable drawdown rates to consult a trusted financial adviser.

Moore offers the following pointers to guide the discussion with a financial adviser:

- A guaranteed life annuity is designed to pay a pre-determined guaranteed income for as long as you live. When buying a guaranteed life annuity, you can buy a level annuity or, preferably, an annuity where the income increases every year to give some protection against inflation (fixed escalation, inflation-linked or with-profit).
- One of the big misconceptions about guaranteed life annuities is that your capital dies with you. This does not need to be the case since you have the option of adding a spouse's benefit or a minimum income payment period where a nominated beneficiary continues receiving an income payment. While these options will reduce the amount payable per year, they may better serve your family's needs.
- The life insurance company does not benefit when the annuity holder dies. Guaranteed life annuities apply the law of insurance whereby a pool of people shares in the risk. The capital left behind by a member of the pool who dies early is used to fund those members who live longer than expected.
- Living annuities are also referred to as investment-linked living annuities (ILLAs), because they allow you to choose the unit trust funds into which your retirement money is invested. Because you can choose the underlying

investments, a living annuity does not guarantee a regular income or the preservation of your retirement capital.

- Living annuities allow clients to select an income level between a pre-defined minimum of 2.5% and a maximum of 17.5%.

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